

INSTRUCTIONS FOR USE OF CORPORATE LIMITED OFFERING EXEMPTION OFFERING CIRCULAR

GENERAL INSTRUCTIONS

The Corporate Limited Offering Exemption Offering Circular is designed to be filed with the Securities Division, Department of Financial Institutions for offerings claiming exemption under the exemption of Chapter 460-46A WAC. (Please read the rules before you fill out the form.) The offering circular, when properly filled in, signed, and submitted, becomes the offering circular to be used to solicit investors, once the exemption has become effective with the Securities Division.

COMPLETING THE OFFERING CIRCULAR

Answer each question in each paragraph of the form. Your answers must be typed. If a question is inapplicable, say so on the form. Answers should be concise and clear. When completed, the offering circular should include all material facts which an investor would need to make an informed decision on whether to invest in the company.

If the space provided for answers is insufficient, create more space by adding more lines. The offering circular may also be put on a word processor so that additional lines may be added without cutting and pasting. The offering circular is available on computer diskette for this purpose from the Securities Division, Department of Financial Institutions, PO Box 9033, Olympia, WA 98507-9033 or at 210 11th Ave SE Rm 300, GA Building, Olympia, WA 98504. The telephone number is 360-902-8760.

Expect the Securities Division to have comments or questions about the answers in the offering circular. The Securities Division may require changes to the offering circular before the company's exemption from registration is declared effective. The Securities Division will be better able to relay its comments about the offering circular if the offering circular being filed comes with a cover letter which identifies the person to whom the Securities Division should address its comments and the telephone number and address of that person. Your cover letter should also state the exemption from federal securities registration on which you intend to rely in making the offering. Generally this will be either Securities and Exchange Commission (SEC) Rules 504 (limited offering) or 147 (intrastate offering).

INSTRUCTIONS ABOUT SPECIFIC QUESTIONS

Be very careful and precise in answering all questions. Give full and complete answers so that they are not misleading under the circumstances involved. Do not discuss any future performance or other anticipated event unless you have a reasonable basis to believe that it will actually occur within the foreseeable future. If any answer requiring significant information is materially inaccurate, incomplete, or misleading, the company, its management and principal stockholders may have liability to investors.

COVER PAGE

Developmental stage company:

A business is in the developmental stage if substantially all of its efforts are devoted to establishing the business. A developmental stage business may have commenced its principal operations but has not yet produced significant revenues. Developmental stage activities include: establishing a business plan; raising capital; engaging in research and development; establishing supply sources; acquiring property, plant, and equipment; recruiting and training personnel; developing markets; and starting up production.

THE COMPANY

Question 1.: The contact persons listed should be the persons at the company potential investors should contact to ask questions or to purchase the securities offered in the offering circular.

The brief description of the company's business should generally be no more than a few sentences. The company will be describing its business more fully later in the offering circular.

RISK FACTORS

Question 2.: Include only those risk factors particular to the company and not generalized statements. However, certain risk factors are common among small corporations: liquidity problems; inadequate capitalization; inexperience of management; absence of operating history; or absence of a market for the company's products or services. The company should consider the applicability of these risk factors to its situation in completing the risk factors section of the offering circular. The company should provide cross references to the questions where the details of the risks are described. If the risks to the investor are not placed in the proper order of importance, the Securities Division may ask that they be reordered.

The following are examples of risk factors a company might include in its Risk Factors Section:

For a company with limited operating history:

The company was recently formed, has no significant operating history, and has yet to produce a profit. There is no assurance that it will ever be profitable. As a new enterprise, it is likely to be subject to risks management has not anticipated. The company has limited resources and is dependent on the proceeds of this offering to allow it to conduct operations. However, the proceeds of the offering and the company's other resources may not be sufficient for the company's needs, and it may have inadequate funds to finance its operation. See questions 11, page ____.

For a company whose stock has no existing market:

Prospective purchasers of shares should be aware that unless the Company is able to complete a public offering or the Company is able to be sold for cash or merged with a public company, their investment in the Company may be illiquid indefinitely. See question 15, page ____.

For a company competing in a highly technical area where products rapidly become obsolete:

The company is in a highly technical industry, which is characterized by frequent introductions of new products and services, which are often based on technological advances in electronic components. To remain competitive, the company must continue to improve its present products and to develop new products and to provide the necessary services and support. The proceeds of the present offering may not be adequate to support the company's research and development needs.

See question 3(a), page _____.

and

The company's ability to operate successfully is dependent upon certain key personnel and on its ability to attract and retain qualified technical personnel, who are in great demand.

See question 23, page _____.

For a company that competes against larger and better financed companies in a competitive business:

The business is highly competitive and the company will be competing with many established companies having much greater financial resources, experience, and market share than the company. See questions 3(c), page _____.

For a company with inexperienced management:

None of the company's officers and directors has managed a company in the _____ business, and none has experience in managing a developmental stage enterprise. See questions 20-22, pages _____.

These examples are not intended to be copied as boilerplate but are to aid in the development of a risk factor section applicable to your offering.

BUSINESS AND PROPERTIES

Question 3.(b): Indicate whether the company manufactures its products itself, and if so, briefly describe the manufacturing process. If the company contracts out production of its products, describe the contractual arrangement for this. Service businesses should state whether they provide some or all of their services directly, whether they contract out for some of all of the services, and should describe generally how and by whom its services are delivered. If the company plans to offer a new product or products, it should state the present stage of development of the products, including whether or not a working prototype is in existence. The company should estimate how much it will cost the company to complete the development of the product. It should also describe any major existing supply contracts and any present or anticipated dependence on a limited number of suppliers.

Question 3.(c): Describe the part of the industry and the geographic area in which the company will compete. Indicate whether competition is expected to be by price, service, or some other basis. Name the principal competitors that the company expects to have in its area of competition. Indicate the relative size and financial and market strengths of the company's competitors in the area in which the company will operate. State why the company believes that it can compete effectively with these and other companies.

Question 3.(e): State whether any employees are subject to collective bargaining agreements and if so, describe the terms of the agreement.

Question 3.(f): Indicate which properties the company leases, and summarize the terms of those leases, including the amount of payments, expiration dates, and the terms of any renewal options. Include similar disclosure for any properties the company is buying on long term contracts. Indicate the extent to which the Company's operations depend or are expected to depend upon patents, copyrights, trade secrets, know-how to other proprietary information and the steps undertaken to secure and protect this intellectual property. Summarize the principal terms and expiration dates of any significant license agreements.

Question 3.(I): Discuss any pending or anticipated mergers, acquisitions, spin-offs, or recapitalizations. If the Company has recently undergone a stock split, stock dividend, or recapitalization in anticipation of this offering, describe (and adjust historical per share figures elsewhere in this Offering Circular accordingly).

OFFERING PRICE FACTORS

Question 6.(a): If the Company has been in business for less than a year but nevertheless conducted operations which resulted in earnings or losses, include the amount of such earnings or losses, and indicate number of months of operations from which the earnings or losses resulted. If a predecessor operated within the past 12 months, also include the results of the predecessor's operations, appropriately identified.

Question 7.(a): Do not include bank debt in the description of securities issues.

Question 7.(c): Net tangible book value is total tangible assets minus total liabilities. The following is a list of resources that are considered intangible: Copyrights, Franchises, Goodwill Leaseholds, Organization costs, Operating rights, Patents and Trademarks. To calculate net tangible book value, first subtract intangible items from total assets. You now have tangible assets. Next, subtract total liabilities from tangible assets. This number is net tangible book value.

Total Assets:	_____
Less: Intangible Assets:	_____
Total Tangible Assets:	_____
Less: Total Liabilities:	_____
Net Tangible Book Value:	_____

USE OF PROCEEDS

Question 8.: Use of proceeds should be specifically described. The company should consider use of the following categories: leases; rent; utilities; payroll (by position or type); purchase of equipment, inventory, or supplies; payment of notes, accounts payable, or other debt; marketing costs; taxes; and consulting fees. Categories selected will vary with the company's plans. Indicate which of the items of offering expenses are estimates. Payments to be made directly to the company's officers, directors, or promoters should be set out in separate categories.

Question 9.: Any transaction which involves the use of 5% or more of the proceeds of the offering is probably a significant transaction, as is any transaction that is not in the ordinary course of business. A transaction in which the company acquires an asset necessary to the operation of the business can be a significant transaction. If a significant transaction is described elsewhere in the offering circular, include a cross reference to that description here. If the assets are to be acquired from officers, directors, employees, or principal stockholders of the company or their associates, give the names of the persons from whom the assets are to be acquired and set forth the cost to the company, the method followed in determining the cost, and any profit to such persons.

If the company engages in research and development, and is expending any portion of the offering proceeds for that purpose, describe its anticipated activities and indicate the amounts expended for research and development during the last fiscal year and the amount expected to be expended in the current fiscal year.

Question 10.: Indicate if a significant amount of the company's trade payables have not been paid within the stated trade term. State whether the company is subject to any unsatisfied judgments, liens, or settlement obligations and the amounts thereof.

Question 11.: If material amounts of funds from sources other than this offering are to be used in conjunction with the proceeds of this offering, describe the anticipated sources and uses of such funds.

DESCRIPTION OF SECURITIES

Question 13.: Shareholders in Washington corporations have cumulative voting rights and preemptive rights to purchase new issues of shares unless the articles of incorporation provide otherwise.

Question 15.: If the company has elected or intends to elect to be a subchapter S corporation under the Internal Revenue Code, state the restrictions associated with that election.

Securities issued pursuant to exemptions from federal and state registration are generally restricted securities. Resale of those securities is restricted. The exemption from federal securities registration on which the company intends to rely in doing this offering may impose restrictions on resale. If the offering is made pursuant to SEC Rule 147, resale of the securities to out of state residents is barred for nine months. Securities not registered in Washington that are sold in Washington pursuant to SEC Rule 504 are restricted securities. See SEC Rule 144, which creates a safe harbor for the resale of restricted securities. The company must describe any restrictions under federal and state securities laws on transfer of the securities offered, in addition to describing any other restrictions on transfer of those securities.

PLAN FOR SELLING THE OFFERING

Question 17.: If the offering is limited to employees of the company, so state.

OFFICERS AND KEY PERSONNEL OF THE COMPANY

Question 20.: The term “Chief Executive Officer” means the officer of the company who has been delegated final authority by the board of directors to direct all aspects of the company’s affairs.

Question 21.: The term “Chief Operating Officer” means the officer in charge of the actual day-to-day operations of the company’s business.

Question 22.: The term “Chief Financial Officer” means the officer having accounting skills who is primarily in charge of assuring that the company’s financial books and records are properly kept and maintained and financial statements prepared.

Question 23.: The term “key personnel” means persons such as vice presidents, production managers, sales managers, or research scientists, who are not included above, but who are expected to make significant contributions to the business of the company, whether they will be employees, independent contractors, or consultants.

Question 26.(a).: Indicate if the company involved was a subsidiary or division of a larger enterprise. If so, name the larger enterprise.

Question 26(b).: Indicate what position the officer or director held at the other company, what the duties of that position were, and whether the company is still in existence and conducting operations. If the company is no longer in existence or is no longer operating, explain.

PRINCIPAL STOCKHOLDERS

Question 28.: For the purpose of determining whether a person owns 10% of any class, include shares beneficially owned as well as legally owned. A person beneficially owns a share if that share is legally owned by:

- (a) any relative, spouse, or relative of spouse who has the same principal residence as the person,
- (b) any corporation or other entity controlled by the person or by any person described in (a) above, or
- (c) any trust or estate directed by the person or by a person described in (a) or an entity described in (b) above.

Include separately all common stock issuable upon conversion of convertible securities (identifying them by asterisk) and show average price per share as if conversion has occurred. Do the same for outstanding options. Indicate by footnote if the price paid was for consideration other than cash and the nature of any such consideration. Disclosures must be made for all those who beneficially own directly or indirectly 10% or more of the common and preferred stock presently outstanding.

Here is an example of a stockholder information table:

Name	Average Price per Share	Class/Number of Shares Now Held	% of Total	No. of shares held after offering, if Maximum sold	% of Total
John Doe	\$1.75	10,000 Common		10,000	
John Doe	\$2.25	10,000 Common*	75%	10,000	15%
John Doe	\$2.86	10,000 Common**		10,000	
Anna Smith	\$2.00	10,000 Common	25%	10,000	5%

*Represents shares issuable upon exercise of outstanding stock options. See question 33 below.

** Represents shares issuable upon conversion of outstanding debentures as of 12/31/94 which is the most recent practicable conversion date. See question 7(a) and question 12.

Question 29.: See instructions to question 28 for definition of beneficial ownership.

Question 30.: If this includes any presently outstanding shares that may be sold only subject to SEC Rule 144, indicate the remaining holding period for those shares. Describe any other restrictions on the resale of presently outstanding shares, including any restriction on transfer to be imposed under a promotional stock escrow in connection with this offering.

MANAGEMENT RELATIONSHIPS, TRANSACTIONS, AND RENUMERATION

Question 31.(b).: “Doing business with” includes sales or leases of goods, property, or services to or from the company, employment or stock purchase contracts, and so on. State the principal terms of any significant loans, agreements, leases, financing, or other arrangements.

LITIGATION

Question 34.: State the names of the principal parties, the nature and current status of the matters, the court or other forum hearing the matters, and amounts involved. Give an evaluation by management or counsel, to the extent feasible, of the merits of the proceedings or litigation and the potential impact on the Company’s business, financial condition, or operations.

FEDERAL TAX ASPECTS

Question 35.: If the company is a subchapter S Corporation, summarize the tax consequences of that election. Attach any opinion or any description of the tax consequences of an investment in the securities by the tax advisor.

MISCELLANEOUS FACTORS

Question 36.: One factor to be considered for disclosure in this section is whether the company maintains key man life insurance on any of its Officers, Directors, or key personnel.

FINANCIAL STATEMENTS

Question 37.: If since the beginning of the last fiscal year the Company has acquired another business the assets or net income of which were in excess of 20% of those for the Company, show pro forma combined financial statements as if the acquisition had occurred at the beginning of the Company’s last fiscal year.

See WAC 460-46A-092 which sets forth the requirements for financial statements under this exemption. If a predecessor operated within the last twelve months, also include financial statements for the predecessor.

OTHER DOCUMENTS TO BE FILED:

If company has promotional stock in excess of 60%, the company should provide the Securities Division with a copy of its stock escrow agreement when it files its offering circular. Sample stock escrow agreements can be obtained from the Securities Division. Please complete the attached promotional shares worksheet and submit it with the offering circular to the Securities Division.

See WAC 460-16A-101 through WAC-16A-110, particularly the definition of promotional shares and the sample calculation in WAC 460-16A-102. If the company intends to claim the exemption of WAC 460-16A-109 from the promotional shares rule, it should do so in its initial filing with the Securities Division, stating the reasons it meets the exemption.

If you have any questions about the use of the Corporate Limited Offering Exemption, write or call the Securities Division, Department of Financial Institutions, PO Box 9033, Olympia, WA 98507-9033, 360-902-8760.